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Viewing cable 09QUITO121, A Somber U.S. Business Forum Briefs the Ambassador

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Reference ID	Created	Released	Classification	Origin
09QUITO121	2009-02-18 20:41	2011-08-30 01:44	CONFIDENTIAL	Embassy Quito

Appears in these articles:

<http://www.eluniverso.com/2011/04/27/1/1355/cable-192675.html>

VZCZCXYZ0008
RR RUEHWEB

DE RUEHQT #0121/01 0492041
ZNY CCCCC ZZH
R 182041Z FEB 09
FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC 0039
INFO RUEHBO/AMEMBASSY BOGOTA 7969
RUEHCV/AMEMBASSY CARACAS 3392
RUEHLP/AMEMBASSY LA PAZ FEB LIMA 3035
RUEHGL/AMCONSUL GUAYAQUIL 4104
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L QUITO 000121

SIPDIS

USTR FOR BENNETT HARMAN

E.O. 12958: DECL:02/17/2019

TAGS: [ETRD](#) [EINV](#) [EFIN](#) [EPET](#) [ECON](#) [EC](#)

SUBJECT: A Somber U.S. Business Forum Briefs the Ambassador

Ref. A) Quito 98, B) Quito 60, C) Quit...

id: 192675
date: 2/18/2009 20:41
refid: 09QUITO121
origin: Embassy Quito
classification: CONFIDENTIAL
destination: 08QUITO1178|09QUITO22|09QUITO60|09QUITO98
header:
VZCZCXYZ0008
RR RUEHWEB

DE RUEHQT #0121/01 0492041
ZNY CCCCC ZZH
R 182041Z FEB 09
FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC 0039
INFO RUEHBO/AMEMBASSY BOGOTA 7969
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RUEHGL/AMCONSUL GUAYAQUIL 4104
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

----- header ends -----

C O N F I D E N T I A L QUITO 000121

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E.O. 12958: DECL:02/17/2019

TAGS: [ETRD](#) [EINV](#) [EFIN](#) [EPET](#) [ECON](#) [EC](#)

SUBJECT: A Somber U.S. Business Forum Briefs the Ambassador

Ref. A) Quito 98, B) Quito 60, C) Quito 22, D) 08 Quito 1178

Classified by Ambassador Heather Hodges. Reason: 1.4 b and d.

¶1. (C) Summary. On February 13, U.S. companies briefed the Ambassador on the business climate in Ecuador. The tone was somber, as the representative outlined challenges and risks, but also opportunities for their companies, which are representative of many business sectors in Ecuador. Most were concerned about weakening demand in Ecuador and abroad, the risk of dedollarization, declining export competitiveness, problems raised by restrictive Ecuadorian trade measures, the need to take defensive positions by saving cash and reducing workforces and, for the petroleum and banking sectors, continued regulatory uncertainty. Not all was negative, however, as the business representatives noted that the government heard their concerns and gave them some relief on the trade restrictions, and several noted that the trade restrictions will also provide opportunities that some industries will be able to exploit. End summary.

¶2. (U) The Ambassador met with the U.S. Business Forum on February

¶13. The U.S. Business Forum operates in parallel with the AmCham and is focused on U.S.-owned or operated businesses, and provides the participants an opportunity to exchange information on the current business climate.

Autos

¶3. (C) The General Motors manager (GM) led off by discussing the trade restrictions that Government of Ecuador imposed in January (reftel b). He said that GM participated in the discussions the GOE had with the private sector, and obtained some flexibility in GM's quota by excluding imported kits that are used to assemble vehicles for export, taxis or the government. However, GM declined to sign the agreement that most large importers signed. The GM representative noted that the trade restrictions complicate GM's production management in the region, since GM coordinates production between its facilities in Ecuador, Colombia and Venezuela, and now the Colombian and Venezuelan plants face high tariffs in exporting to Ecuador.

¶4. (C) The GM manager said that his factory had to shut down for

five days because the sudden imposition of new certification requirements (refel d) blocked the importation of a range of parts used for auto assembly. He said that for one product the Ecuadorian standard was 20 years old and no laboratory tests to that standard anymore. He said his factory was on the verge of shutting down again when the GOE temporarily lifted the certification requirement for six months (refel a).

15. (C) Turning to the current business climate, the GM manager said that his sales were up 20% in January 2009 compared to January 2008, the only GM unit worldwide to experience a sales increase. He assumed the jump was because customers were anticipating a price increase and/or because they were converting financial savings into real goods out of a concern about pending financial sector difficulties. He said that most sales were for cash, as financing for auto purchases has sharply contracted.

Banking -----

16. (C) The Citibank representative stated that deposits in the banking sector have declined, reflecting an overall decrease in liquidity in Ecuador due to balance of payments and fiscal constraints, plus withdrawals by clients who are concerned about Ecuador's ability to maintain dollarization. She said that the banking sector is protecting its liquidity by reducing lending, and seemed to believe that overall the sector was sound. She was concerned that several smaller banks were in a difficult position and, if closed, might promote panic about the state of the overall banking sector.

17. (C) Regarding the balance of payments pressure that Ecuador is facing, the Citibank manager said that she is concerned that Ecuador may go beyond the current 1% tax on transfers abroad and may impose capital controls as some point.

Energy Sector -----

18. (C) The head of a local oil services company owned by a U.S. citizen said that there was little investment in the petroleum sector. Foreign oil companies had dramatically cut back on investment in recent years with the imposition of windfall oil income taxes, and more recently state-owned Petroecuador suffered a dramatic cut in its investment budget because of falling oil income.

19. (C) The manager of Machala Power/EDC, electricity and natural gas companies owned by Noble Energy, said that his company had reached an agreement with the GOE whereby the GOE would pay Machala Power \$70 million in arrears, and in turn Machala Power would withdraw its international arbitration case (refel c). However, he has been informed that that GOE no longer has sufficient cash and therefore will not be making the payment.

110. (C) After the meeting, the Machala Power/EDC representative told EconCouns that he is concerned about the GOE's approach to the EDC gas company. In a recent meeting with Carlos Pareja, Under Secretary for Petroleum, Pareja told him that President Correa has decided that EDC's production contract should be converted to a service contract, and EDC would be paid a fee of \$2 for every thousand cubic feet (Mcf) of gas produced. If not, Machala Power/EDC should "begin to pack its bags." The representative said that currently EDC charges its sister company approximately \$3.75/Mcf, which is low in order to generate profits on the electricity side of the business, and that the fee proposed by Pareja was unreasonable.

Flower Sector -----

111. (C) A representative of a U.S. flower company said that Ecuadorian flower exports were down because of weakening demand in major markets, which is accentuated in new markets in Eastern Europe which have experienced sharp currency devaluations as well. In addition, Ecuadorian producers are facing increased competition from African producers where labor costs are much lower, which has been exacerbated by sharp increases in the minimum wage in Ecuador in 2008 and 2009. He said that given the loss of competitiveness of the Ecuadorian flower sector, the best outcome for that sector would be

if Ecuador abandoned the dollar, although he acknowledged that could cause problems for other sectors.

Tourism

¶12. (C) The manager of the Marriott hotel said that business at his hotel was down 16% from the prior year. He said that his hotel had let a limited number of staff go.

Industrial Imports

¶13. (C) The manager of an Ecuadorian company that imports valves and other types of industrial piping from the U.S. said that overall business has weakened. He added that some sectors, such as the food processing industry, continue to invest, in part to take advantage of new market opportunities created by higher tariffs on consumer goods. He said that in the current uncertain business environment, companies had to hoard cash, be lean (his company has reduced staff by 15%), and look for new opportunities.

Consumer Goods

¶14. (C) The representative for Energizer said that his company imports batteries and a range of toiletry goods. He said that like GM, his company realized a jump in sales in December and January as Ecuadorian distributors stocked up in anticipation of price increases; he expects limited sales in the upcoming months. The exception was batteries, where imports were also blocked for almost two months by the new Ecuadorian certification requirements, which were then lifted.

¶15. (C) He said that in addition to selling to large Ecuadorian chains, his company sells to small shops. He said that he has seen growing arrears with the small stores. The small stores have had to increase the credit they extend to their customers, largely because of falling income due to declining remittances. This in turn leads the small stores to fall behind on payments to suppliers such as Energizer.

Textiles

¶16. (C) The U.S. owner of a local textile company said that the textile sector was doing well and benefited from the trade restrictions on imported clothing, although he stressed that his industry did not ask for the restrictions. His company will increase investment to take advantage of the opportunities. He added that his sector did ask for tighter labeling requirements, which the GOE has begun to implement, as a measure to crack down on contraband.

Information Technology

¶17. (C) The U.S. owner of an Ecuadorian information technology (IT) company said that the business outlook for his sector was uncertain. Overall investment was down, but some business were increasing IT investment to improve efficiency. He said that some of the investment was in labor-saving technology as companies looked to reduce their payrolls.

Comment

¶18. (C) This was the most somber meeting the Embassy has had with the U.S. Business Forum in recent years, as U.S. companies grapple with the challenges of a global economic downturn that appears likely to create a difficult business environment in Ecuador in 2009. This is further complicated by Ecuadorian trade barriers as well as regulatory uncertainty for key sectors such as petroleum and banking. Even so, most companies still see business opportunities in Ecuador and will manage their companies to minimize the upcoming risks and to take advantage of the opportunities that present themselves.

Hodges

=====CABLE ENDS=====